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REPORT BY THE

# Comptroller General

OF THE UNITED STATES

COMPLETED ORIGINAL

# OPM Should Promote Medical Necessity Programs For Federal Employees' Health Insurance

This is GAO's third report calling for the Office of Personnel Management to pay more attention to the medical necessity provisions of its Federal Employees Health Benefits program contracts. OPM has been slow to encourage health insurance plans to use medical necessity programs which are designed to help hold down medical costs and to encourage good medical practice.

Promoted by many health insurers and approved by numerous medical specialty societies, the programs have been available since 1977. Until recently, however, OPM provided virtually no guidance to participating health insurance plans about medical necessity programs. Plans' awareness and use of them varied greatly. OPM should monitor the programs, evaluate their benefits, and require health insurance plans to use their beneficial aspects.

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COMPTROLLER GENERAL
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# OPM SHOULD PROMOTE MEDICAL NECESSITY PROGRAMS FOR FEDERAL EMPLOYEES' HEALTH INSURANCE

## D I G E S T


Medical necessity programs were developed to help contain health care costs and promote good health care. They can reduce the incidence of, and payment for, health care procedures not found to be medically necessary or consistent with generally acceptable medical practice.

The programs were publicized in 1977, but the Office of Personnel Management (OPM) has been slow to recognize them. It should systematically monitor and evaluate them and promote their beneficial aspects.

Federal Employees Health Benefits program plans have not been required to use medical necessity programs. As a result, plans' use of medical necessity programs has varied greatly. Data from plans using the programs show that benefits have been achieved and should increase. In October 1979, OPM began encouraging employee organization plans of the Federal Employees Health Benefits program to use such programs. (See ch. 2.)


## AVAILABLE MEDICAL NECESSITY PROGRAMS

The Blue Cross and Blue Shield Associations have developed one medical necessity program. Similar programs have been developed by the Health Insurance Association of America and the Department of Health and Human Services' 1/ Medicare program. (See pp. 1 to 6.)

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1/Before May 4, 1980, activities discussed in this report as the responsibility of the Department of Health and Human Services were the responsibility of the Department of Health, Education, and Welfare. A separate Department of Education began operations on May 4, 1980.

The Associations have recommended that Blue Cross and Blue Shield plans not (1) routinely provide benefits for 68 health care procedures and require special medical justification for payment and (2) pay for diagnostic tests for medical and surgical hospital admissions unless a physician ordered the tests. The Associations expect to address other issues as the program continues. (See pp. 2 to 4.)

OPM INVOLVEMENT LIMITED

In October 1979, GAO discussed these programs with OPM officials. They said that they had been aware of the Blue Cross and Blue Shield Associations' medical necessity program, but had not monitored or evaluated it for possible use in the Federal Employees Health Benefits program. The officials were not aware of the Health Insurance Association of America's program. (See pp. 9 to 11.)

PLANS' USE OF PROGRAMS VARIED

Health benefits plans' awareness and use of the medical necessity programs varied greatly--from no policy on using the programs to detailed claim processing instructions based on the programs. The Service Benefit Plan has endorsed the Associations' medical necessity program fully; however, administration varied somewhat among four Blue Shield plans GAO visited. The Indemnity Benefit Plan expects to use selected parts of available programs. Seven out of nine employee organization plans that GAO reviewed did not use medical necessity programs in their claim processing systems. (See pp. 11 to 17.)

PROGRAMS ARE ACHIEVING BENEFITS

Data from the Service Benefit Plan and two Blue Shield plans show that the Associations' medical necessity program has been beneficial, and the program's direction indicates savings should increase. The Associations estimated that the initial list of health care procedures could

affect claims valued at about $27 million. A more recent program effort addressed the need for routine hospital admission tests that cost an estimated $2.5 to $3.0 billion annually. Officials said that savings are also being achieved because of education and publicity. The programs GAO reviewed did not maintain sufficient data to measure savings.

A Service Benefit Plan study of the frequency of procedures listed in the medical necessity program indicates that from 1975-78 the number of claims paid for (1) surgical procedures listed as not generally useful declined 26 percent, (2) listed diagnostic procedures declined 84 percent, and (3) listed X-ray procedures rose 14 percent. Data from the District of Columbia Blue Shield plan showed that, between 1976 and 1979, the dollar amount and number of claims paid for the listed procedures declined 90 and 91 percent, respectively. Data from the Pennsylvania Blue Shield plan showed that, from April 1977 to October 1979, about 93 percent of claims for procedures listed as not medically necessary or beneficial were denied. (See pp. 17 to 19.)

RECENT OPM ACTIONS TO ENCOURAGE USE OF MEDICAL NECESSITY PROGRAMS

In late October 1979, the OPM program manager for employee organization plans asked plans to comply with their contractual obligations to review claims to determine that they represented medically necessary services. In December 1979, the official sent to the plans for their use in claim processing the Blue Cross and Blue Shield Associations' list of procedures deemed not generally useful. He also met with certain plans' and underwriters' representatives to discuss ways to use medical necessity programs. GAO was advised that these representatives had agreed to include the listed surgical procedures in their claim processing systems. (See pp. 19 and 20.)

## CONCLUSIONS

Improved care and cost reduction benefits of medical necessity programs can be realized more fully if OPM keeps abreast of program developments and makes sure they are adopted promptly. Medical necessity programs are relatively new; benefits realized so far have been limited. However, these programs enjoy widespread physician acceptance, and benefits appear likely to increase as the programs are expanded and more widely used. (See pp. 20 and 21.)

## RECOMMENDATIONS

To make sure that medical necessity programs receive appropriate attention and consideration, the Director, OPM, should:

--Systematically monitor developments in these programs, in both the private and public sectors.

--Evaluate these programs to determine how Federal Employees Health Benefits program plans might use them to foster better health care and lower health insurance costs.

--Require the Federal Employees Health Benefits program plans to use aspects of these programs that are proven beneficial. (See p. 21.)

## OPM'S AND OTHER ORGANIZATION'S COMMENTS AND GAO'S EVALUATION

Although representatives of several health benefit plans and carriers indicated that full implementation of medical necessity programs would not be easy, they expressed general agreement with the programs and a willingness to cooperate with OPM in implementing them. OPM's comments on the draft report generally stressed the difficulties associated with using medical necessity programs. While OPM supported the

general medical necessity concept, it did not express a commitment to fully consider GAO's recommendations.

GAO believes that the plans' and carriers' willingness to cooperate presents OPM with the opportunity to provide leadership and guidance in making better use of medical necessity programs. (See pp. 21 to 25.)